

北京大学国家发展研究院研究生课程

国际金融专题

Topics in International Finance

Course Syllabus

Spring 2021

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COURSE DESCRIPTION

This course introduces advanced topics in international finance and macroeconomics (IFM) for graduate students. We first present a toolbox for analyzing international business cycles and international capital markets, including solving and estimating international DSGE models. We then move to various issues in IFM, including (a) international business cycles, (b) international capital flows, portfolio choice and global imbalances, (c) credit booms and financial crises, (d) capital controls and macro-prudential policies, and (e) exchange rates and monetary policy in open-economies.

PREREQUISITE

Knowledge of economics at the level of advanced macroeconomics and econometrics is assumed.

GRADING

- **Replications (30%):** This course has three assignments of replicating published articles in order to make students learn modeling, computational and empirical skill.
- **Refereeing an article (30%):** Pick up an unpublished article, subject to my approval, and write a detailed referee report.
- **Term paper (50%)**
- **Class Attendance and Participation (10%)**

REFERENCES

CV: Carlos A. Vegh. Open Economy Macroeconomics in Developing Countries. MIT Press, 2013.

LS: Ljungqvist, Lars, and Thomas J. Sargent. Recursive macroeconomic theory. MIT press, 2012.

OR: Obstfeld, Maurice and Kenneth S. Rogoff. Foundations of International Macroeconomics. Vol. 30. Cambridge, MA: MIT press, 1996.

SU: Martín Uribe and Stephanie Schmitt-Grohé, 2017, "Open Economy Macroeconomics" Princeton University Press (April 4, 2017), ISBN-10: 0691158770, ISBN-13: 978-0691158778

GHR: Gopinath, Gita, Elhanan Helpman, and Kenneth Rogoff, eds. Handbook of International Economics. Vol. 4. Elsevier, 2014.

HM: Burkhard Heer and Alfred Mauner. 2009. Dynamic General Equilibrium Modeling: Computational Methods and Applications (2nd ed. 2009. 2nd printing ed.). Springer Publishing Company, Incorporated.

COURSE CONTENT (articles with * will be covered in class)

Week 0: The toolbox: Solving Dynamic Stochastic General Equilibrium (DSGE) Models

1. Local approximation methods:

- Textbook reference: HM (chapter 1,2)
- Schmitt-Grohe, Stephanie, and Martin Uribe. "Closing Small Open Economy Models." Journal of international Economics 61.1 (2003): 163-185.
- Schmitt-Grohe, Stephanie & Uribe, Martin, 2004. "Solving dynamic general equilibrium models using a second-order approximation to the policy function," Journal of Economic Dynamics and Control, Elsevier, vol. 28(4), pages 755-775, January.
- Johnston, Michael K. and King, Robert G. and Lie, Denny, "Straightforward Approximate Stochastic Equilibria for Nonlinear Rational Expectations Models" (September 1, 2014). CAMA Working Paper No. 59/2014. Available at SSRN: <http://ssrn.com/abstract=2496154> or <http://dx.doi.org/10.2139/ssrn.2496154>
- Free software: *Dynare*

2. Global solution methods:

- Textbook reference: HM (chapter 4 and the following chapters therein)
- Carroll, Christopher D., 2006. "The method of endogenous gridpoints for solving dynamic stochastic optimization problems," Economics Letters, Elsevier, vol. 91(3), pages 312-320, June.
- Thomas Hintermaier, Winfried Koeniger, " The method of endogenous gridpoints with occasionally binding constraints among endogenous variables ", Journal of Economic Dynamics and Control, Volume 34, Issue 10, October 2010, Pages 2074-2088

Week 1-2: Introduction and basic models

1. *SU Book Chapter 2-3
2. *Backus, David K., 1993. "Interpreting co-movements in the trade balance and the terms of trade," *Journal of International Economics*, vol. 34(3-4), pages 375-387.

Week 3: Puzzles in international macroeconomics

3. Textbook references: OR (1.1 1.2 1.3)
4. *Obstfeld, Maurice, and Kenneth Rogoff. "The Six Major Puzzles in International Macroeconomics: is there a Common Cause?." NBER Macroeconomics Annual 2000, Volume 15. MIT press, 2001. 339-412.
5. *Gourinchas, Pierre-Olivier and Olivier Jeanne, 2013. "Capital Flows to Developing Countries: The Allocation Puzzle," *Review of Economic Studies*, Oxford University Press, vol. 80(4), pages 1484-1515.
6. Felstein, Martin, and Charles Horioka. "Domestic Savings and International Capital Flows." *The Economic Journal* 90 (1980): 314-329.
7. French, Kenneth R., and James Michael Poterba. "Investor Diversification and International Equity Markets." *American Economic Review* 81.2 (1991): 222-226.
8. Backus, David K., and Gregor W. Smith. "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods." *Journal of International Economics* 35.3 (1993): 297-316.
9. McCallum, John. "National Borders Matter: Canada-US Regional Trade Patterns." *The American Economic Review* (1995): 615-623.
10. Rogoff, Kenneth. "The Purchasing Power Parity Puzzle." *Journal of Economic literature* (1996): 647-668.
11. Coeurdacier, Nicolas, and Hélène Rey. 2013. "Home Bias in Open Economy Financial Macroeconomics." *Journal of Economic Literature*, 51(1): 63-115.

Week 4: International business cycles: model vs. data

12. Textbook references: CV (1) OR (2) SU (4-6) LS (8 16 17)
13. *Mendoza, Enrique G. "Real Business Cycles in a Small Open Economy." *The American Economic Review* (1991): 797-818.
14. *Neumeyer, Pablo A., and Fabrizio Perri. "Business Cycles in Emerging Economies: the Role of Interest Rates." *Journal of monetary Economics* 52.2 (2005): 345-380.
15. Uribe, Martin, and Vivian Z. Yue. "Country Spreads and Emerging Countries: Who Drives Whom?." *Journal of international Economics* 69.1 (2006): 6-36.
16. Backus, David K., Patrick J. Kehoe, and Finn E. Kydland. "International Real Business Cycles." *Journal of political Economy* (1992): 745-775.

17. Guerron-Quintana, P., Rubio-Ramirez, J. F., Fern´andez-Villaverde, J., and Uribe, M. (2011). "Risk Matters: The Real Effects of Volatility Shocks." *American Economic Review*, 101, 2530-2561.

Week 5-6: International business cycles and international trade

18. *Di Giovanni, Julian, and Andrei A. Levchenko. "Putting the parts together: trade, vertical linkages, and business cycle comovement." *American Economic Journal: Macroeconomics* 2.2 (2010): 95-124.
19. *Julian di Giovanni, Andrei A. Levchenko, and Isabelle Mejean, 2018, "The Micro Origins of International Business-Cycle Comovement" *American Economic Review*, vol. 108, no. 1, January 2018 (pp. 82-108)
20. *Julian di Giovanni and Andrei A. Levchenko, 2012, Country Size, International Trade, and Aggregate Fluctuations in Granular Economies. *Journal of Political Economy*, 2012, vol. 120, no. 6
21. *Matsuyama, Kiminori, Iryna Sushko, and Laura Gardini. "Globalization and synchronization of innovation cycles." (2015).
22. Laura Castillo-Martinez, 2019, "Sudden stops, productivity, and the exchange rate", London School of Economics
23. Bilbiie, Florin O., Fabio Ghironi, and Marc J. Melitz. "Endogenous entry, product variety, and business cycles." *Journal of Political Economy* 120.2 (2012): 304-345.
24. Christopher Erceg & Andrea Prestipino & Andrea Raffo, 2018. "The Macroeconomic Effect of Trade Policy," 2018 Meeting Papers 221, Society for Economic Dynamics.
25. Antonio Rodriguez-Lopez, 2018, Liquidity and the International Allocation of Economic Activity
26. Friederike Niepmann, Banking across borders, *Journal of International Economics*, Volume 96, Issue 2, 2015, Pages 244-265,
27. Bilbiie, Florin O., Ippei Fujiwara, and Fabio Ghironi. "Optimal monetary policy with endogenous entry and product variety." *Journal of Monetary Economics* 64 (2014): 1-20.
28. Matteo Cacciatore, 2014, International Trade and Macroeconomic Dynamics with Labor Market Frictions, *Journal of International Economics*, 93 (May 2014): 17-30.
29. Ravikumar, B., Ana Maria Santacreu, and Michael Spasi. "Capital Accumulation and Dynamic Gains from Trade." (2018).
30. Cacciatore, M., G. Fiori, and F. Ghironi (2016): "Market Deregulation and Optimal Monetary Policy in a Monetary Union," *Journal of International Economics* 99: 120-137
31. Alessandro Barattieri, Matteo Cacciatore, and Fabio Ghironi, 2018, Protectionism and the Business Cycle. NBER Working Paper No. 24353

Week 6-7: Production network and international business cycles

32. *Alfaro-Urena, A., Manelici, I. and Vasquez, J.P., 2019. The Effects of Joining Multinational Supply Chains: New Evidence from Firm-to-Firm Linkages. Available at SSRN 3376129.
33. *Michael B. Devereux, Karine Gente and Changhua Yu, 2019, Production Network and International Fiscal Spillovers
34. *Zhen Huo, and Andrei A. Levchenko and Nitya Pandalai-Nayar, “The Global Business Cycle: Measurement and Transmission”, (November, 2018)
35. *Saroj Bhattarai and Konstantin Kucheryavy, 2018, A Unified Model of International Business Cycles and Trade
36. *Auer, Raphael, Andrei A. Levchenko, and Philip Saure (forthcoming), “International inflation spillovers through input linkages.” *Review of Economics and Statistics*.
37. *Rodriguez-Clare, A., Ulate, M. and Vásquez, J.P., 2019. New-Keynesian Trade: Understanding the Employment and Welfare Effects of Sector-Level Shocks.
38. Ghironi, F., and M. J. Melitz (2005): International Trade and Macroeconomic Dynamics with Heterogeneous Firms, *Quarterly Journal of Economics* 120: 865-915.
39. Chaney, Thomas (2014), “The network structure of international trade.” *American Economic Review*, 104(11), 3600–3634.
40. Caliendo, Lorenzo, et al. "The impact of regional and sectoral productivity changes on the US economy." *The Review of economic studies* 85.4 (2017): 2042-2096.
41. Shaowen Luo, 2015, Propagation of Financial Shocks in an Input-Output Economy with Trade and Financial Linkages of Firms
42. Carvalho, Vasco M. and Basile Grassi (forthcoming), “Large firm dynamics and the business cycle.” *American Economic Review*.
43. Vasco M. Carvalho and Alireza Tahbaz-Salehi, 2018, Production Networks: A Primer

Week 8: Stochastic trend in business cycles

44. *Aguiar, Mark, and Gita Gopinath. “Emerging Market Business Cycles: The Cycle Is the Trend.” *Journal of Political Economy* 115.1 (2007): 69-102.
45. *Garcia-Cicco, Javier, Roberto Pancrazi, and Martin Uribe. “Real Business Cycles in Emerging Countries?.” *American Economic Review* 100.5 (2010): 2510-31.
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47. Chang, Roberto, and Andrés Fernández. “On the Sources of Aggregate Fluctuations in Emerging Economies.” *International Economic Review* 54.4 (2013):1265-1293.

Week 9-10: International capital flows and portfolio choices

48. *Lane, Philip R. and Gian Maria Milesi-Ferretti, 2007, “The External Wealth of Nations Mark II,” *Journal of International Economics*, Vol. 73, pp. 223–50.
49. *Lane, Philip R., and Gian Maria Milesi-Ferretti (2018) “The External Wealth of Nations Revisited: International Financial Integration in the Aftermath of the Global Financial Crisis.” *IMF Economic Review* 66(1), 189-222

50. *Lane, Philip R., and Jay C. Shambaugh (2010a) "Financial Exchange Rates and International Currency Exposures." *American Economic Review* 100(1), 518-540
51. *Yu, Changhua, 2015. "Evaluating international financial integration in a center-periphery economy," *Journal of International Economics*, vol. 95(1), pages 129-144.
52. *Maggiore, Matteo, Brent Neiman, and Jesse Schreger. "International currencies and capital allocation." *Journal of Political Economy*, forthcoming. <https://globalcapitalallocation.com/>
53. *Coppola, Antonio, et al. Redrawing the map of global capital flows: The role of cross-border financing and tax havens. No. w26855. National Bureau of Economic Research, 2020. <https://globalcapitalallocation.com/>
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55. *Konrad B Burchardi, Thomas Chaney, Tarek A Hassan, Migrants, Ancestors, and Foreign Investments, *The Review of Economic Studies*, Volume 86, Issue 4, July 2019, Pages 1448–1486, <https://doi.org/10.1093/restud/rdy044>
56. Lane, Philip R., and Gian Maria Milesi-Ferretti (2007) "The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970-2004." *Journal of International Economics* 73(2), 223-250
57. Devereux, Michael B., and Alan Sutherland (2010) "Country portfolio dynamics." *Journal of Economic Dynamics and Control* 34(7), 1325-1342
58. Devereux, Michael B., and Alan Sutherland (2011) "Country Portfolios In Open Economy Macro-Models." *Journal of the European Economic Association* 9(2), 337-369

Week 10-11: Credit booms and financial crises

59. Textbook references: CV (2 16 17) SU (10)
60. *Mendoza, Enrique G. "Sudden Stops, Financial Crises, and Leverage." *The American Economic Review* 100.5 (2010): 1941-1966.
61. *Bianchi, Javier. 2011. "Over-borrowing and Systemic Externalities in the Business Cycle." *American Economic Review*, 101(7): 3400-3426.
62. *Devereux, Michael B., and Changhua Yu. 2020. *International Financial Integration and Crisis Contagion*. *Review of Economic Studies*.
63. *Morelli, Juan M., Pablo Ottonello, and Diego J. Perez. 2019. "GLOBAL BANKS AND SYSTEMIC DEBT CRISES" New York University and University of Michigan.
64. Lorenzoni, Guido. "Inefficient Credit Booms". *The Review of Economic Studies* 75.3 (2008): 809–833.
65. Lorenzoni, Guido "International Financial Crises." *Handbook of international Economics* 4 (2013), 647-87
66. Caballero, Ricardo J. and Krishnamurthy, Arvind "International and Domestic Collateral Constraints in a Model of Emerging Market Crises." *Journal of Monetary Economics* 48.3 (2001):513-548
67. Chang, R and. A. Velasco "A Model of Financial Crises in Emerging Markets" *Quarterly Journal of Economics* 116.2 (2001): 489-517.

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Week 12-13: Capital controls and Macroprudential Policies

69. *Erten, Bilge, Anton Korinek, and Jose Antonio Ocampo. Capital controls: Theory and evidence. No. w26447. National Bureau of Economic Research, 2019. JEL forthcoming
70. *Bianchi, Javier, and Enrique G. Mendoza, 2018, "Optimal Time-Consistent Macroprudential Policy." *Journal of Political Economy*, vol 126(2), pages 588-634.
71. *Devereux, Michael B., Eric R. Young and Changhua Yu (2019) "Capital Controls and Monetary Policy in Sudden Stop Economies" , *Journal of Monetary Economics* (in press).
72. *Stephanie Schmitt-Grohé and Martín Uribe, "Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment," *Journal of Political Economy* 124, no. 5 (October 2016): 1466-1514.
73. *Fornaro, Luca, and Federica Romei. "The paradox of global thrift." *American Economic Review* 109.11 (2019): 3745-79.
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75. *Korinek, Anton, and Olivier Jeanne, 2020, "Macroprudential Regulation Versus Mopping Up After the Crash", forthcoming *Review of Economic Studies*
76. Korinek, Anton, 2018, "Currency Wars or Efficient Spillovers? A General Theory of International Policy Cooperation"
77. Korinek, Anton, and Damiano Sandri. "Capital controls or macroprudential regulation?." *Journal of International Economics* 99 (2016): S27-S42.
78. Emmanuel Farhi, Gita Gopinath and Oleg Itskhoki, 2014. "Fiscal Devaluations," *Review of Economic Studies*, Oxford University Press, vol. 81(2), pages 725-760.
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80. Korinek, Anton, "The New Economics of Prudential Capital Controls: A Research Agenda," *IMF Economic Review* 59, August 2011, 523-561.
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83. Caballero, Ricardo J., and Alp Simsek. A risk-centric model of demand recessions and macroprudential policy. No. w23614. National Bureau of Economic Research, 2017.

Week 14: Exchange rates and monetary policy in open-economies

84. Textbook references: GHR (8) CV (8-11) SU (8 9)
85. *Xavier Gabaix and Matteo Maggiori. "International Liquidity and Exchange Rate Dynamics." *The Quarterly Journal of Economics* (2015) 130 (3): 1369-1420.

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87. *Farhi, Emmanuel, and Matteo Maggiori. "A Model of the International Monetary System." *Quarterly Journal of Economics* 133, no. 1 (2018): 295-355
88. *Philippe Bacchetta, Eric van Wincoop, "Puzzling Exchange Rate Dynamics and Delayed Portfolio Adjustment, 2019, NBER Working Paper No. 26259
89. *Gopinath, Gita, and Jeremy Stein. 2018, "Banking, Trade and the Making of a Dominant Currency", Working Paper, Harvard University
90. Mukhin, Dmitry. "An equilibrium model of the International Price System." 2018 Meeting Papers. No. 89. Society for Economic Dynamics, 2018.
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93. Engel, Charles. "Exchange rates, interest rates, and the risk premium." *The American Economic Review* 106.2 (2016): 436-474.
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95. Mark Aguiar, Manuel Amador, Emmanuel Farhi and Gita Gopinath, 2015. "Coordination and Crisis in Monetary Unions," *The Quarterly Journal of Economics*, Oxford University Press, vol. 130(4), pages 1727-1779.
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99. Farhi, Emmanuel, Gita Gopinath and Oleg Itskhoki, 2014. "Fiscal Devaluations," *Review of Economic Studies*, Oxford University Press, vol. 81(2), pages 725-760.
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101. Bruno, Valentina, and Hyun Song Shin (2015a) "Capital Flows and the Risk-taking Channel of Monetary Policy." *Journal of Monetary Economics* 71(C), 119–132.
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104. Sebastian Fanelli and Ludwig Straub 2017 "A Theory of Foreign Exchange Interventions"

Week 15: International capital flows and global imbalances

105. Textbook references: GHR (10)
106. *Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. "An Equilibrium Model of "Global Imbalances" and Low Interest Rates." *The American Economic Review* (2008): 358-393.
107. *Mendoza, Enrique G., Vincenzo Quadrini, and Jose-Victor Rios-Rull. "Financial Integration, Financial Development, and Global Imbalances." *Journal of Political Economy* 117.3 (2009).
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114. Gourio, Francois, Michael Siemer, and Adrien Verdelhan. "Uncertainty and international capital flows." (2015).

Week 16: Students present their research proposals